

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



INTRODUCTION

The following Management's Discussion and Analysis (MD&A) provides information that management believes is relevant to an assessment and understanding of COM DEV International Ltd's ("the Company", or "COM DEV") consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's (i) unaudited consolidated financial statements, including notes thereto, for the three month period ended July 31, 2010 (the "Unaudited Consolidated Financial Statements"), and (ii) audited consolidated financial statements including the notes thereto, and management's discussion and analysis for the year ended October 31, 2009 ("the Consolidated Financial Statements"). The Unaudited Consolidated Financial Statements and the Consolidated Financial Statements (collectively, the "Financial Statements") have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. The information contained herein is dated as of September 1, 2010, unless otherwise noted.

CAUTION REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

Certain statements contained in this report contain forward-looking statements, including, (without limitation) statements concerning possible or assumed future results of operations of the Company preceded by, followed by or that include the words "believes", "expects", "anticipates", "estimates", "intends", "plans", "forecasts", "guidance", or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Company's actual results may differ materially from those anticipated in these forward-looking statements. Additional information relating to the Company and the risks inherent in its business is provided in the Company's Annual Information Form for the year ended October 31, 2009 and other documents available on SEDAR at www.sedar.com.

This Management's Discussion and Analysis (MD&A) contains Future Oriented Financial Information (FOFI) in several areas, notably: in discussing new orders, R&D spending levels, SG&A spending, revenue growth guidance, and gross margin trending. Readers are again cautioned that this FOFI is provided solely to provide a view of the operations through the eyes of management, based on management's current expectations in these areas, and should not be used for any other purpose. Readers are reminded that, as noted above, FOFI are not guarantees of future performance, and should not be considered such, since actual results may differ materially from those expressed in the FOFI.

COMMENT ON CURRENT GLOBAL ECONOMIC CONDITIONS

For a more complete analysis of risks faced by the Company, and additional comments on the global economic environment, please refer to the section "Business Risks and Prospects", included later in this MD&A.

USE OF NON-GAAP MEASURES

In this MD&A, we provide information about orders and contract backlog. Orders and backlog measures are not defined by Canadian generally accepted accounting principles (GAAP) and our measurement of them may vary from that used by others. The Company measures orders as the sum of fully executed contracts from our customers. The Company measures backlog as the sum of all customers' orders at contract value (including the contract value of change notices subsequently received) to date, less revenue recognized against those orders, plus or minus the impact of foreign exchange fluctuations on orders denominated in foreign currency. The Company includes in its backlog determination, only those amounts that are covered by contracts. While we believe that long-term backlog trends serve as a useful metric for assessing the growth prospects for our business, backlog is not a guarantee of future revenues and provides no information about the timing on which future revenue may be recorded.

OVERVIEW

COM DEV is a leading global designer, manufacturer and distributor of space communications and space science products and systems. The Company began operations in 1974 and completed its initial public offering in December 1996. The Company is headquartered in Cambridge, Ontario, Canada, with additional operations in Aylesbury, England; Ottawa, Ontario, Canada; El Segundo, California; and Xian, China. The Company's common shares trade on The Toronto Stock Exchange under the symbol "CDV". COM DEV employed 1,364 people around the world as of July 31, 2010, compared to 1,337 people as of July 31, 2009.

COM DEV designs and manufactures advanced instruments and microwave products for space satellites such as multiplexers, filters, switches, surface acoustic wave (SAW) devices, signal processors, satellite payloads, and micro-satellite spacecraft. The products are sold to substantially all of the major satellite prime contractors and many government space agencies for use in commercial communications, military/defense communications and space science satellites. Recently, the Company has begun to position itself for the sale of information from its own satellites, which are scheduled to launch in 2010 and 2011.

OVERALL PERFORMANCE

During the Company's third quarter of fiscal year 2010, fourteen satellite programs were awarded in the global space market, compared with eleven in the same quarter of fiscal 2009. The number of transponders on these satellites totaled 753 in the third quarter of fiscal 2010, representing a 24.7% increase from the 604 transponders awarded in the global market in fiscal Q3 2009. There was a 62.7% increase in the absolute number of transponders in the commercial sector. The breakdown of satellites and transponders awarded between the three market sectors (commercial, civil, and military/defense) can be summarized as follows:

Sector	Three months ended July 31			
	2010		2009	
	<u>Satellites</u>	<u>Transponders</u>	<u>Satellites</u>	<u>Transponders</u>
Commercial	12	693	8	426
Civil	2	60	3	178
Military / Defense	-	-	-	-
Total	<u>14</u>	<u>753</u>	<u>11</u>	<u>604</u>

Of the fourteen satellite programs announced in Q3 fiscal 2010, COM DEV has won orders on six and is in the running to secure work on the remaining eight programs. This compares to fiscal Q3 2009, when of the eleven satellites announced in the market, COM DEV was able to secure work on nine and is expecting to win the work on one of the two remaining satellites.

In Q3 2010, the Company received orders for a total of \$47.4 million in new business, compared with \$44.8 million in the third quarter of the previous year. More details are provided in the next paragraph. Of the \$47.4 million in new orders won in Q3 2010, 84% came from the commercial sector of the space market, 6% from the civil sector, and 10% from the military/defense sector. By comparison, of the \$44.8 million in business won in Q3 2009, 60% came from the commercial sector, 23% from the civil sector and the remaining 17% from the military sector.

Included in the \$47.4 million of new orders received in fiscal Q3 2010 are orders received under Authorities to proceed (ATPs). In recent years, as delivery schedules have become more critical, customers are increasingly using ATPs as a way to start a subcontractor working, under contract, on a program while the full contract negotiations are concluded. COM DEV includes only the work for which it has contractual coverage in its reported orders and backlog. In the case of ATP awards, the Company includes only the value of the ATP, not the expected full value of the contract. Only after contract negotiations are completed, and the customer has awarded COM DEV the full contract, does the Company include the value above the ATP in its orders and backlog. At the

end of fiscal Q3 2010, the amount of potential order value in excess of ATP, which management expects to realize, stood at \$21.3 million.* This compares to \$19.3 million at the end of fiscal Q3 2009. The expected full contract amounts are based on bid values, and the historically high percentage of ATPs being ultimately turned into full contract values.

The Company closed out the third quarter of fiscal 2010 with backlog totaling \$122.7 million, which represents a 21.1% decrease over the Q3 2009 closing backlog of \$155.6 million. Approximately 62% of the Q3 2010 closing backlog is currently expected to be realized beyond the end of the Company's 2010 fiscal year,* compared to approximately 58% of the closing fiscal Q3 2009 backlog being realized beyond the end of its 2009 fiscal year. The expected amount of backlog to be realized beyond the upcoming fiscal year is based on the current projections for project performance.

The volatility of foreign currencies continued to have an impact on the business during Q3 2010. According to the Bank of Canada, the average USD/CAD exchange rate during Q3 2010 was \$1.0405, which compares to the Q3 2009 average of \$1.1324. The foreign exchange loss in Q3 2010 was \$0.1 million which compares to a \$0.5 million loss in Q3 2009. Included in the foreign exchange loss are the results of the Company's hedging program that resulted in an expense of \$0.5 million (Q3 2009: \$2.7 gain).

Gross margins for the quarter declined from a year earlier, averaging 16.0% in Q3 2010 compared with 29.3% in Q3 2009. This decline can be attributed primarily to lower exchange rates and to continuing cost growth on five programs. These five programs represented approximately 5% of our Q3 2010 revenues and negatively affected Q3 2010 gross margins by \$6.7 million.

Net research and development expenditure for Q3 2010 was \$1.0 million, compared to \$3.6 million expenditure in Q3 2009. The current quarter net expenditure represents 1.9% of revenues, compared with 5.9% of revenues in fiscal Q3 2009. In order to fully offset the Income Tax Expense, the Company recognized a \$0.8 million Investment Tax Credit (ITC). The ITC recognized represents the tax savings gained from R&D expenditures made in prior periods. The Company remains committed to its R&D technology roadmap and continues to review its R&D projects to ensure that they are still aligned with overall corporate objectives and strategies

The Company's \$32 million operating line of credit remains undrawn at the end of fiscal Q3 2010 except for \$2.2 million (\$1 million in 2009) in the form of guarantee letters issued to customers in the normal course of operations by the bank on behalf of the Company. The Company also has a term debt facility of \$30 million through GE Capital Solutions, which was almost fully drawn to complete the Company's 2007 / 2008 expansion into the U.S. Payments against this credit facility are being made in accordance with the terms of the agreement, and the amount outstanding on this loan at the end of Q3 2010 was \$14.2 (\$21.4 at the end of Q3 2009).

For an analysis of risks faced by the Company, please refer to the section "Business Risks and Prospects", included later in this MD&A.

* Future oriented financial information (FOFI). Please refer to Caution Regarding FOFI on Page 1 of this document.

RESULTS OF OPERATIONS

Revenues

<u>(in millions of dollars)</u>	<u>Three months ended July 31</u>		
	<u>2010</u>	<u>2009</u>	<u>% change</u>
Commercial satellite programs	\$ 34.9	\$ 32.1	8.7%
Civil (government) programs	\$ 10.5	\$ 19.8	(47.0%)
Military and defense programs	\$ 6.9	\$ 9.6	(28.1%)
Total Revenues	\$ 52.3	\$ 61.5	(15.0%)

Total revenue for the Company in Q3 2010 was \$52.3 million compared to \$61.5 million in Q3 2009. Management had previously indicated its expectations for year over year revenue growth of at least 10%. While underlying market conditions and the Company's historic success rate at winning new business provide the basis for revenue growth, less favourable exchange rates on U.S. dollar contracts in Q3 2010 compared to Q3 2009 and program execution on several contracts have been disappointing. This has resulted in a slower pace of realizing revenue than expected, with the result that management now expects revenues to decline year over year by approximately 5% for fiscal year 2010.*

Backlog

<u>(in millions of dollars)</u>	<u>Three months ended July 31</u>		
	<u>2010</u>	<u>2009</u>	<u>% change</u>
Commercial satellite programs	\$ 63.2	\$ 71.7	(11.9%)
Civil (government) programs	\$ 33.1	\$ 54.6	(39.4%)
Military and defense programs	\$ 26.4	\$ 29.3	(9.9%)
Total Backlog	\$ 122.7	\$ 155.6	(21.1%)

Backlog provides a measure of orders for which revenue has not yet been recognized. As such, backlog is influenced by the timing of orders and of revenues. The Company's backlog of work decreased from the July 31, 2009 level by \$32.9 million, or 21.1%. While the decline in the commercial segment is consistent with historical patterns, the backlog continued to decline in the civil segment due in part to reduced near-term funding of space initiatives from Canadian government sources, resulting in orders being delayed or reduced.

Net Income (loss)

<u>(in millions of dollars except earnings per share)</u>	<u>Three months ended July 31</u>		
	<u>2010</u>	<u>2009</u>	<u>% change</u>
Net Income	\$ (1.7)	\$ 5.2	(132.7%)
Earnings per share basic and diluted	\$ (0.02)	\$ 0.07	(128.6%)

The net loss in Q3 2010 was \$1.7 million compared with \$5.2 million net income in Q3 2009. The primary reason for the lower net income is the lower gross margins recognized in Q3 2010. Gross margins are discussed below.

* Future oriented financial information (FOFI). Please refer to Caution Regarding FOFI on page 1 of this document.

Gross Margin

<u>(in millions of dollars)</u>	<u>Three months ended July 31</u>		
	<u>2010</u>	<u>2009</u>	<u>% change</u>
Total gross margin	\$ 8.4	\$ 18.0	(53.3%)
Total gross margin %	16.0%	29.3%	(45.4%)

Gross margins for Q3 2010 averaged 16.0% compared to 29.3% in Q3 2009. The 45.4% decrease in average gross margin percentage was the result of less favourable exchange rates and continuing cost growth on five programs. These five programs represented approximately 5% of our Q3 2010 revenues and negatively impacted Q3 2010 gross margins by \$6.7 million. The ongoing impact from these programs is expected to drop to less than 2% of revenues by Q3 2011. ♦

Research and Development (R&D)

<u>(in millions of dollars)</u>	<u>Three months ended July 31</u>		
	<u>2010</u>	<u>2009</u>	<u>% change</u>
Total R&D spending before funding	\$ 2.5	\$ 4.5	(44.4%)
Total R&D funding received	\$ (1.5)	\$ (0.9)	66.7%
R&D, net of funding	\$ 1.0	\$ 3.6	(72.2%)

In order to fully offset the Income Tax Expense, the Company recognized a \$0.8 million ITC. The ITC recognized represents the tax savings gained from R&D expenditures made in prior periods. With the inclusion of these ITCs, the amount of R&D funding received rose by 66.7% from 2009 levels and net R&D spending decreased by 72.2% versus Q3 2009. The Company has an established R&D technology roadmap that drives its internal research and development activities. This technology roadmap is reviewed semi-annually against longer-term customer requirements, and potential new technologies that show promise in meeting those requirements. While the Company works to secure outside funding for its R&D efforts, in the absence of funding, it maintains its focus on the activities that form the Company's technology roadmap. The Company will continue to work closely with all available sources of outside funding to defray the costs of its R&D efforts, and to maintain its commitment to technological leadership in its industry. It is important to note that R&D costs noted in the table above reflect only Company-funded research and development activities (net of any external offset funding received). Customer-funded development costs are included in the Company's cost of revenue figures.

Other Expenses

<u>(in millions of dollars)</u>	<u>Three months ended July 31</u>		
	<u>2010</u>	<u>2009</u>	<u>% change</u>
Selling expense	\$ 3.1	\$ 2.4	29.2%
General expenses	\$ 4.9	\$ 6.1	(19.7%)
Interest expense / (income)	\$ 0.1	\$ 0.0	0.0%
Foreign exchange loss	\$ 0.1	\$ 0.5	(80.0%)
Other expense	\$ 0.1	\$ 0.1	0.0%

Selling and General Expenses

Selling expenses were \$0.7 million higher in Q3 2010 than they were in Q3 2009 due to a higher level of business development and sales and marketing costs in exactEarth division and an increase in commission costs. General expenses for Q3 2010 were \$4.9 million compared with \$6.1 million in Q3 2009. The decrease in General expenses was primarily the result of continued rationalization of spending by each of the divisions.

♦ Future oriented financial information (FOFI). Please refer to Caution Regarding FOFI on page 1 of this document.

Interest (Income)/Expense

The Company incurred net interest charges of \$0.1 million in fiscal Q3 2010, compared with interest charges of \$nil million in fiscal Q3 2009. While the Company has paid less interest expenses over the past year, it has also earned less interest income due to lower cash balances. The term debt attracts interest at rates varying from LIBOR plus 225 bps to LIBOR plus 360 bps.

Foreign Exchange

The foreign exchange loss in Q3 2010 was \$0.1 million, compared with a loss of \$0.5 million in Q3 2009. Foreign exchange amounts in the Consolidated Statement of Operations include realized and unrealized gains and losses that result from balance sheet translation of foreign denominated balances, realized gains and losses from settling U.S. dollar hedge contracts and mark to market valuation adjustments on the Company's outstanding U.S. dollar hedge contracts. They do not include the impact of foreign exchange fluctuations on customer program values, and their resulting profitability, which is reflected in the revenue, cost of revenue, and gross margin sections of the Consolidated Statement of Operations. For the quarter, the impact from the mark to market valuations on the U.S. dollar hedge contracts was an unrealized exchange loss of \$1.1 million, compared to an unrealized exchange gain of \$2.8 million in fiscal Q3 2009. The impact from settling U.S. dollar hedge contracts was a gain of \$0.6 million in Q3 2010 and loss of \$0.1 million in Q3 2009. The impact of translation of outstanding foreign denominated balance sheet items and of settling these items into cash during the quarter was a gain of \$0.4 million, compared to a loss of \$3.2 million in Q3 2009.

Other Expense

Other expense includes bank fees and Export Development Canada (EDC) accounts receivable insurance premiums, realized gains from business combinations, business combination expenses as well as other miscellaneous items. The Company insures its customer receivables with EDC to the extent possible in order to mitigate the risk of non-collection.

Financial Position

The following chart outlines the significant changes in the balance sheet between July 31, 2010 and October 31, 2009:

(in millions of dollars)	Increase/ (Decrease)	Explanation
Cash and cash equivalents	\$ (12.5)	Refer to Statement of Cash flows
Accounts receivable	(18.5)	Fluctuations from billing and collection cycles.
Inventory	8.2	There was a decrease of \$1.8 million non-project inventory and an increase of project inventory of \$10 million. Project inventory will fluctuate with billings and revenue profiles.
Prepaid and other	1.5	Prepaid expenses have increased due to an increase in the value of the foreign exchange derivative contracts of \$1.7 million offset by the normal play out of pre-paid expenses of \$0.2 to the Statement of Operations.
Property, plant & equipment	4.3	Purchase of substantially all assets of Routes AstroEngineering Ltd. and normal capital asset purchases less depreciation.
Intangible assets	4.5	Capitalization of certain development assets related to the exactEarth AIS and microsat initiative less amortization.
Accounts payable and accrued liabilities	(7.3)	Normal accounts payable payment cycle.
Deferred revenue	(3.0)	Lower customer billings in advance of work being performed. This balance fluctuates with order levels, and billing profiles on each order.
Loans payable	(5.1)	Normal repayments made according to loan agreements.
Contributed surplus	0.6	Value of the employee Share Purchase Plan awards, and expense recognized on stock options, net of amount transferred on options exercised.
Deficit	4.6	Year to date net income.
Accumulated other comprehensive income	(1.2)	Foreign currency translation of self-sustaining subsidiaries, and associated long term debt designated as a hedge of the net investment in them.

Liquidity and Capital Resources

<u>(in millions of dollars)</u>	<u>Three months ended July 31</u>		
	<u>2010</u>	<u>2009</u>	<u>% change</u>
Cash from operating activities	\$ 5.5	\$ (6.2)	(188.7%)
Net decrease in cash	\$ (1.5)	\$ (12.1)	(87.6%)
Property, Plant and Equipment additions	\$ (3.1)	\$ (0.8)	287.5%
Acquisition of Intangible assets	\$ (2.5)	\$ (3.5)	(28.6%)

The Company generated \$5.5 million of cash from operating activities in Q3 2010, compared with Q3 2009 when \$6.2 million was used. The Company generated \$2.6 million from a reduction in working capital in Q3 2010 which compares to the \$11.7 million invested in working capital in Q3 2009.

In 2009, the Company renegotiated its operating line of credit facility with the Canadian Imperial Bank of Commerce with the result being an increase in the available credit line from \$27 million to its new level of \$32 million. The credit line was not drawn upon throughout fiscal Q3 2010, except for \$2.2 million in the form of guarantee letters issued to customers in the normal course of operations by the bank on behalf of the Company. In addition to this operating line of credit, the Company also has a treasury risk management facility to facilitate hedging of currency related risks arising in the normal course of operations. Under these facilities, the Company is required to maintain certain financial ratios, which the Company has met or for which a waiver has been received as of July 31, 2010.

In addition, the Company has a term credit facility totaling \$30 million (2009: \$30 million) to support its strategic and capital initiatives. The Company drew \$10.0 million USD in support of the Company's acquisition of a production facility in El Segundo, California, during the third quarter of 2007. In the third quarter of fiscal 2008 the Company further drew on the term debt facility by \$18.0 million USD to complete the acquisition of the PMD product line from L-3 Communications Ltd., and to complete additional build-out work on the building in El Segundo. The term debt draws are at interest rates that range from LIBOR plus 225 bps to LIBOR plus 360 bps.

In the second quarter of 2009, the Company issued 7,797,000 common shares in a bought deal transaction with a syndicate of underwriters. Gross proceeds of the transaction, which was completed on February 26, 2009, were \$23.0 million. Net proceeds were approximately \$21.4 million. The proceeds are being used primarily to progress the commercialization of the Company's strategic Automatic Identification System technology, with any remainder to be available for general corporate purposes.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements, other than operating leases disclosed in the Notes to the Consolidated Financial Statements, as at the end of the 2009 fiscal year.

Transactions with Related Parties

The Company had no transactions with related parties in fiscal Q3 2010.

Proposed Transactions

While the Company continues to evaluate potential business expansion initiatives, it has no firm proposed transactions as at July 31, 2010.

Financial Instruments and Other Instruments

The Company realizes a significant portion of its revenues in U.S. dollars and incurs most of its expenses in Canadian dollars. The Company utilizes foreign exchange options to hedge the net cash flow risk associated with forecasted transactions in foreign currencies but does not enter into derivatives for speculative purposes. The Company utilizes derivative instruments to manage the risk associated with anticipated cash flows that will be denominated in foreign currencies. The Company does not designate or measure the effectiveness of the derivative instruments as hedges of specific firm commitments or forecasted transactions and, accordingly, does not meet the requirements of CICA Handbook Section 3865, Hedges, to apply hedge accounting. The Company generally uses foreign exchange put options and related call options to manage foreign currency risk related to sales to customers in the United States and United Kingdom.

Derivative financial instruments are carried at their fair values. Realized and unrealized gains and losses associated with the derivative instruments are included in "foreign exchange loss" in the Consolidated Statements of Operations. In Q3 2010, the loss from the change in fair value of the Company's hedge options was exchange of \$1.1 million, compared to a gain of \$2.8 million in Q3 2009. Additional information of the Company's hedge contracts can be found in note 9 (Financial Instruments) in the Notes to the unaudited Consolidated Financial Statements.

The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations to the Company. The Company minimizes this risk by limiting counterparties to these contracts to Canadian Schedule A Chartered Banks.

Summary of Quarterly Financial Information (Unaudited)

(in thousands of dollars, except earnings per share figures)

Fiscal 2010 Quarters	January 31	April 30	July 31	October 31
Total revenue	\$ 56,687	\$ 60,415	\$ 52,333	
Net income – total	\$ 2,227	\$ 4,102	\$ (1,715)	
Net income per share (basic and diluted)	\$ 0.03	\$ 0.05	\$ (0.02)	

Fiscal 2009 Quarters	January 31	April 30	July 31	October 31	Total
Total revenue	\$ 56,511	\$ 64,104	\$ 61,451	\$ 58,344	\$ 240,410
Net income – total	\$ 4,354	\$ 4,853	\$ 5,241	\$ 858	\$ 15,306
Net income per share (basic and diluted)	\$ 0.06	\$ 0.07	\$ 0.07	\$ 0.01	\$ 0.21

Fiscal 2008 Quarters				October 31
Total revenue				\$ 59,820
Net income – total				\$ 4,785
Net income per share (basic and diluted)				\$ 0.07

Historically, the Company's revenues have been lowest in the first quarter. This is due to the fact that the first quarter has the lowest number of working days as the operations shut down over the Christmas period for maintenance and vacation. Since the Company reports revenue on a percentage of completion basis, the lower number of workdays typically translates to less revenue.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon management's historical experience and various other assumptions that are believed by management to be reasonable under the circumstances. Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Management believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements.

Revenue Recognition

The Company generally provides goods and services to its customers under long-term contracts. The Company recognizes revenue on long-term contracts on the percentage of completion basis, based on costs incurred relative to the estimated total contract costs. Losses on such contracts are accrued when the estimate of total costs indicates that a loss will be realized. Contract billings in excess of cost and accrued profit margins are included as deferred revenue and included in current liabilities.

A portion of the Company's revenue is derived from the sale of goods and services on short-term agreements and purchase orders as well as "cost-plus" government contracts. The revenue from short-term agreements and purchase orders are recognized when the goods and services are delivered to the customer and collection is reasonably assured. Cost-plus contract revenue is recognized as eligible costs are incurred on the applicable contracts.

Project Costs to Complete

At the outset of each customer project, an estimate of the total expected cost to complete the scope of work under contract is made. During the course of the projects, these estimates are reviewed and revised to reflect current expectations of cost to complete, and total cost. These estimates are based on specific knowledge of the status of the project, as well as historical understanding of costs on similar projects. Cost elements include material, direct labour, and overhead costs, with labour and overhead costs being determined using pre-determined costing rates applied to estimated labour hours required to complete the scope of work under contract. These estimates are reviewed on a monthly and quarterly basis to ensure the estimates reflect the current expectations for total costs, however this is not a guarantee that unforeseen or additional costs could be incurred, which would have an impact on project total cost, reported revenue, and gross margins. Management believes it has a review procedure in place to ensure the validity of these estimates at the time they are made.

Useful Life of Intangible and Long-Term Assets

The Company has established policies for determining the useful life of its intangible and long-term assets, and amortizes the costs of these assets over those useful lives. The useful life for each category of asset is determined based on the expectation of its ability to continue to generate revenues, and thus, cash flows for the Company. This ability is tested periodically to ensure the conditions still exist to allow the asset to be reflected at its net-recorded value in the accounts of the Company, and any impairment to the valuation is reflected in the accounts at the time the impairment is determined.

Income Tax Liabilities

The Company establishes a tax provision based on its calculation of taxable income in any year. Occasionally, the Company is subjected to audits by various federal and provincial agencies. When adjustments are proposed, the Company assesses its position with respect to the issue, and when it considers the Company's position to be correct, may object to proposed adjustments. Management estimates the likelihood of succeeding in its position, and where appropriate, provides for amounts estimated to be payable, or reports in notes to the Company's financial statements. For a complete description of carry-forward tax balances, the future tax asset and associated valuation reserve against that future tax asset, see Note 5 to the 2009 audited Consolidated Financial Statements.

Contract Penalties

In some cases, the Company enters into contracts with its customers for the delivery of equipment, where penalties are incurred for late delivery. When the Company wins these orders, it assumes that the cost of the penalties will not be incurred unless the project schedule indicates that contracted delivery dates will not be met. At that time, the individual projects are charged with the cost associated with expected penalties.

Changes in Accounting Policies including Initial Adoption

International Financial Reporting Standards (IFRS)

The CICA Accounting Standards Board has announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective for fiscal years beginning on or after January 1, 2011 and therefore will commence in the first quarter of the Company's 2012 fiscal year, with comparative figures.

COM DEV is receiving assistance from Ernst & Young LLP ("E&Y") with the Company's IFRS conversion project. The Company is following a five key phase approach to ensure successful conversion to International Financial Reporting Standards. The five phases are:

1. IFRS diagnostic impact assessment

Perform a high-level review to identify significant differences between Canadian Generally Accepted Accounting Principles ("GAAP"), as adopted by COM DEV, and IFRS.

Status: This Phase is complete. The findings of the diagnostic impact are that there are several areas that may require a significant degree of effort to quantify the impact on the opening balance sheet and to put in place procedures and controls to efficiently and effectively address the particular IFRS difference on an ongoing basis.

These areas include the following:

- Property, Plant and Equipment
- Impairment of Long Lived Assets
- Business Combinations
- Revenue Recognition
- Income Taxes
- Foreign Currency Translation
- Employee Benefits

2. Design and Planning

Using the outputs from the diagnostic assessment, a master plan for the conversion project will be compiled. This plan will include schedules, resource requirements and output specifications.

Status: This phase is in process and is expected to carry on through Q4 of the 2010 fiscal year.

3. Solution development

This phase will carry out a full assessment of the changes required to accounting and business systems in order to migrate to IFRS. This phase will include completing formal authorization process to approve recommended accounting policy changes and training processes across the Company's divisions.

Status: Phase 3 is in process, concurrently with Phase 2. This Phase will be carried out during Q4 of fiscal year 2010.

4. Implementation

This phase will implement the solutions identified in Phase 3. The culmination of this phase will be collection of all the financial information necessary to produce IFRS-compliant financial statements, embedding IFRS in business processes and Audit Committee approval of IFRS financial statements.

Status: Phase 4 has started and is expected to continue through Q1 of 2011.

5. Post implementation review.

This phase will be to ensure on-going compliance with IFRS and to take into account the changing IFRS landscape.

Status: Not started.

It is not practically possible at this time to quantify the impact of these differences. The Company expects to make changes to processes and systems before the 2011 fiscal year, in time to enable the Company to record transactions under IFRS for comparative purposes in the 2012 financial year reporting.

Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

In 2009, the CICA issued three new accounting standards, which are aligned with International Financial Reporting Standards ("IFRS"): CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date; Section 1602 establishes standards for the accounting and presentation of non-controlling interests. These new standards must be adopted concurrently with Section 1582. Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. The Company has adopted Sections 1582, 1601 and 1602 effective November 1, 2009.

Business Risks and Prospects

Global Economic Environment

Recent events have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to the Company or to its industry, such as the recent extraordinary developments in global financial markets, may adversely affect the Company over the course of time. For example, rapid changes to foreign currency exchange rates may adversely affect the Company's financial results. Credit contraction in financial markets may hurt the Company's ability to access credit in the event that it identifies an acquisition opportunity or some other opportunity that would require a significant investment in resources. Government payments to support financial institutions and other distressed industries may reduce the amount of money governmental agencies have to spend on space and defence related projects. A reduction in credit, combined with reduced economic activity, may adversely affect prime contractors and other businesses that collectively constitute a significant portion of the Company's customer base. As a result, these customers may need to reduce their purchases of COM DEV's products or services, or the Company may experience greater difficulty in receiving payment for the products or services that these customers purchase from the Company. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on the Company's business, operating results, and financial condition.

New Products and Technological Change

The market for the Company's products is characterized by rapidly changing technology involving industry standards and frequent new product introductions. The Company's success will depend upon market acceptance of its existing products and its ability to enhance its existing products and to introduce new products and features to meet changing customer requirements. A current example of this is the Company's efforts to exploit its Automatic Identification System (AIS) detection and de-collision capabilities by entering the AIS data sales market through its new subsidiary Company, exactEarth Ltd. There can be no assurance that the Company will be successful in identifying, developing, manufacturing and marketing new products or enhancing its existing products. The Company's business will be adversely affected if the Company incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products or technologies non-competitive or obsolete.

Reliance on Significant Customers and Credit Concentration

The satellite industry is characterized by a small number of prime contractors, which represents most of the Company's customer base. The relatively small number of customers leads to a concentration of the Company's

revenues and accounts receivable. If one or more customers were to delay, reduce or cancel orders, the overall orders of the Company may fluctuate and could adversely affect the Company's operations and financial condition. While the Company's accounts receivable tend to be concentrated, many of our customer receivables, by virtue of their non-Canadian status are insured with Export Development Canada ("EDC"). While the Company expects to be able to continue to access receivables insurance through EDC, there is no assurance that this will be the case, and any subsequent credit loss could have a material adverse effect on the business and its financial condition. COM DEV is increasing its penetration with a number of smaller satellite manufacturers, as well as in satellite market segments outside the traditional commercial communications sector, to help mitigate the risk associated with having a small number of customers.

Fluctuations in Operating Results

The Company's revenues and earnings fluctuate from quarter to quarter, or year to year, based on customer requirements and the timing of orders. While the Company recognizes revenue on a percentage of completion basis for long-term contracts, it has experienced fluctuations in its quarterly operating results and anticipates that such fluctuations may continue. The Company's revenue is derived in large part from long-term fixed price contracts, some of which are subject to significant technology risk. As a result, the Company's financial reporting relies upon management's estimates of earned revenues and the costs required to complete the project. Revision to the estimates used in the preparation of the Company's financial results could have a material impact on financial results of future periods. There can be no assurance that levels of profitability will not vary significantly among quarterly or annual periods. The Company's operating results may fluctuate as a result of many factors, including increased competition, the size and timing of significant customer orders, cancellations of significant projects by customers, changes in operating expenses, changes in the Company's strategy, changes in personnel, foreign currency exchange rates and general economic and political factors.

The Company's expense levels are based in significant part on its expectations regarding future revenues. Accordingly, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Any significant revenue shortfall could therefore have a material adverse effect on the Company's results of operations.

Project Performance

Any inability of the Company to execute customer projects in accordance with requirements, including adherence to delivery timetables, could have a material adverse effect on the Company's business, operations and prospects.

Sources of Supply

The Company uses some subcomponents for which there is only a single source of supply. As a result, the Company may occasionally suffer shortages of such subcomponents, which shortages may have short-term adverse effects on the Company's sales. Although the Company seeks to reduce exposure to single source suppliers through a continual evaluation of competent alternate sources of supply, the loss of certain of these suppliers, or the inability of certain of these suppliers to deliver to the Company on a timely basis, could have a material adverse effect on the Company's operations and prospects.

Dependence on Key Personnel

The Company is highly dependent on the continued service of and its ability to attract and retain qualified technical and engineering personnel. The competition for such personnel is intense and the loss of particular persons, as well as the failure to recruit additional key technical personnel in a timely manner, could have a material adverse effect on the Company's business.

Product Failure

COM DEV operates in a market where product reliability is essential. While the Company enjoys a strong reputation for product reliability, any significant product failure could materially affect the Company's reputation, revenue and future business prospects.

Failure to Perform Contracts

Contracts for the Company's products may include penalties and/or incentives related to performance, which could materially affect operating results. Management provides for any anticipated penalty costs in its estimates of the costs to complete a contract and the contract generally limits any penalties to 5% or less of the contract value. The Company's products are complex, use sophisticated technologies and often involve a lengthy development and manufacturing cycle. In addition, these products are integral to the customer's satellite payload and alternate sources of supply may not be available in the time required, or at all. Consequently, any failure by the Company to satisfy its contractual obligations could trigger losses in excess of the value of the contract. Since the Company often works on large individual contracts, the claims against the Company could be material.

Competition

COM DEV's competitors, who are generally its customers, are larger, better capitalized and have greater resources than the Company. The Company believes that its ability to compete depends in part on a number of competitive factors, some of which are outside its control, such as innovative products or cost-saving production techniques developed by the Company's competitors. There can be no assurance that the Company will be able to compete successfully with its existing competitors or with new competitors.

Changing Business Conditions

The Company's future operating results will substantially depend on the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational, financial control and reporting systems. If the Company is unable to respond to and manage changing business conditions, the quality of the Company's services, its ability to retain key personnel and its results of operations could be materially adversely affected. The Company has recently expanded into the U.S. with the purchase of a facility to be used to design, engineer, and produce equipment for its customers involved in U.S. government satellite programs. The inability to effectively address this new market could result in a material adverse effect on the results of the Company's operations.

Future Capital Requirements

The Company's future capital requirements will depend on many factors, including the development of new products, the progress of the Company's research and development efforts, the rate of expansion and the status of competitive products. Depending on these factors, the Company may require additional financing which may or may not be available on acceptable terms. If additional funds are raised by issuing equity securities, dilution to the existing shareholders may result. If adequate funds are not available, the Company may not be able to achieve its growth objectives and operational targets, which could have a material adverse effect on the Company's business.

Risks Associated with Intellectual Property

The Company's success is dependent upon proprietary technology. The Company relies upon patent protection to protect its proprietary technology. In addition, the Company attempts to protect its trade secrets and other proprietary information through agreements with customers, suppliers, employees and consultants and other security measures. There can be no assurance that the steps taken by the Company in this regard will be adequate to prevent misappropriation or independent third-party development of its technology. Furthermore, the laws of certain countries in which the Company sells its products do not protect the Company's intellectual property rights to the same extent as do the laws of Canada or the United States.

Although the Company believes that its products and technology do not infringe patents or other proprietary rights of others, there can be no assurance that third parties will not claim that the Company's current or future products infringe the patents or other proprietary rights of others. Any such claim, with or without merit, could result in costly litigation or could require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all.

Foreign Exchange Risk

The Company carries on a significant portion of its business in the United States and elsewhere outside Canada, and the majority of its sales outside of Canada are made in U.S. dollars. Any weakening in the value of the U.S.

dollar, British Pounds or Euro against the Canadian dollar would result in lower revenues and margins for the Company when stated in Canadian dollars. The Company does engage in hedging its U.S. dollar-denominated net cash flows, and is actively targeting efficiency improvements in its operations, both in terms of productivity and cost control. These measures will continue to be taken regardless of the currency environment. The Company also seeks to contract in Canadian dollars in its Canadian operations wherever possible.

Seasonal Volatility

The Company recognizes revenue based on percentage of completion in accordance with its stated accounting policy. Since the recognition of revenue is determined by costs incurred on projects compared to total expected costs, and since a large portion of the Company's project costs are labour, any quarter with fewer working days will cause suppression in labour effort exerted on projects, and consequently, revenue recognized. Typically, the Company slows production during the Christmas holiday season to provide time for maintenance and facilities improvements to take place. As a result, the Company's first quarter revenues are typically the lowest of the year.

Tax Assessments

The Company has recently undergone audits by Canada Revenue Agency and the Ontario Ministry of Finance. As a result of the audits, several adjustments to prior year returns have been proposed for capital taxes and corporate minimum taxes. The Company has considered the proposed assessments and opposes several matters based on its interpretation of the tax rules and has made submission to the tax authorities on this basis. The Company is currently unable to determine the likelihood of success of its objection to the proposed assessments. The disputed tax amounts total \$3.3 million, including accrued interest. Any amount of tax liability arising from these assessments will be recorded when the probable amounts can be determined. While the Company expects that if it is required to pay additional taxes, a significant amount will be recoverable against future tax amounts, there is no guarantee that this will be the case.

Timing Risks

There can be no assurance that the market demand for the Company's products will translate into orders within the time frames anticipated. The timing and extent of satellite procurement, and the Company's ability to secure project orders stemming from anticipated satellite procurement activity could have a material adverse effect on the Company's business, operations and prospects.

New Market Risks

The Company has identified, as part of its strategic direction, civil/government, and military/defense markets for its product and service offerings. While the Company has seen some success in initial penetration into these markets, there can be no assurance, given the Company's limited experience and operating history in these markets, that the Company's investment and efforts in these markets will be successful. Failure to succeed in the civil/government and military/defense markets may adversely affect the Company's future business, financial condition and operating results.

Regulatory Environment for Technology and Materials

Certain of the Company's programs are subjected to export controls either domestically or through International Traffic in Arms Regulations (ITAR). This regulatory environment places strict controls over receipt, use, transfer, and export of technology, material, and equipment. While the Company understands the requirements of these controls and regulations, there is no assurance that these regulations, or their interpretations by regulatory authorities, will not change in a way that would cause a material adverse effect to the Company's business, operations and prospects.

Enterprise Risk Management

In 2008, management established the position of Director, Enterprise Risk Management to oversee the Company's assessment of the various significant risks it faces, and to coordinate and facilitate the establishment of risk mitigation actions, plans, and processes.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable, but not absolute, assurance that material information required to be publicly disclosed by a public company is communicated in a timely manner to senior management to enable them to make timely decisions regarding public disclosure of such information. We have conducted an evaluation of our disclosure controls and procedures as of July 31, 2010 under the supervision, and with the participation of, our Chief Executive Officer and our Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (as this term is defined in the rules adopted by Canadian securities regulatory authorities) are effective in providing reasonable assurance that material information relating to COM DEV is made known to them and information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under applicable law.

Management's Annual Report on Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Additionally, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of internal control over financial reporting. Our Chief Executive Officer and our Chief Financial Officer have assessed the effectiveness of our internal control over financial reporting and concluded that, as at July 31, 2010, such internal control over financial reporting is effective and that there were no material weaknesses.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended July 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Outstanding Share Data

Details of the Company's outstanding share data as of September 1, 2010 are as follows:

Common shares	76,156,127
Options on common shares	1,965,053

Each option is exercisable for one common share of the Company.

COM DEV International Ltd.
Consolidated Statements of Operations
(Canadian dollars in thousands, except for per share figures)
Unaudited

For the three months ended July 31	2010	2009
Revenue (note 10)	\$ 52,333	\$ 61,451
Cost of revenue	43,952	43,440
Gross margin	<u>8,381</u>	<u>18,011</u>
Research and development costs	2,517	4,531
Research and development recovery (note 8)	1,507	912
Net research and development	<u>1,010</u>	3,619
Selling expenses	3,111	2,423
General expenses	4,873	6,096
Operating (loss) income	<u>(613)</u>	5,873
Interest expense	128	44
Foreign exchange loss	62	510
Other expense	97	83
Net (loss) income before taxes	<u>\$ (900)</u>	<u>\$ 5,236</u>
Income taxes (note 8)	815	-
Net (loss) income	<u><u>\$ (1,715)</u></u>	<u><u>\$ 5,236</u></u>
Attributable to:		
Equity holders of the parent	\$ (1,715)	\$ 5,241
Non-controlling interest	-	(5)
	<u><u>\$ (1,715)</u></u>	<u><u>\$ 5,236</u></u>
Earnings per share (note 7(e))		
Basic and diluted earnings per share	(\$0.02)	\$0.07

COM DEV International Ltd.
Consolidated Statements of Operations
(Canadian dollars in thousands, except for per share figures)
Unaudited

For the nine months ended July 31	2010	2009
Revenue (note 10)	\$ 169,435	\$ 182,066
Cost of revenue	134,578	131,611
Gross margin	<u>34,857</u>	<u>50,455</u>
Research and development costs	9,224	13,902
Research and development recovery (note 8)	3,003	2,943
Net research and development	<u>6,221</u>	<u>10,959</u>
Selling expenses	8,888	6,823
General expenses	16,043	17,171
Operating income	<u>3,705</u>	<u>15,502</u>
Interest expense	416	366
Foreign exchange (gain) loss	(2,359)	423
Other expense	219	290
Net income	<u>\$ 5,429</u>	<u>\$ 14,423</u>
Income taxes (note 8)	815	-
Net income	<u><u>\$ 4,614</u></u>	<u><u>\$ 14,423</u></u>
Attributable to:		
Equity holders of the parent	\$ 4,635	\$ 14,448
Non-controlling interest	(21)	(25)
	<u><u>\$ 4,614</u></u>	<u><u>\$ 14,423</u></u>
Earnings per share (note 7(e))		
Basic and diluted earnings per share	\$0.06	\$0.20

COM DEV International Ltd.
Consolidated Balance Sheets
(Canadian dollars in thousands)
Unaudited

	As at July 31, 2010	As at October 31, 2009
Assets		
Current		
Cash and cash equivalents	\$ 8,899	\$ 21,404
Accounts receivable	35,153	53,674
Inventory (note 4)	59,361	51,114
Prepays and other	4,594	3,112
Income taxes recoverable	5,327	4,615
Future income tax assets - current	6,192	6,192
	<u>119,526</u>	<u>140,111</u>
Property, plant and equipment	73,871	69,537
Intangible assets	25,983	21,459
Goodwill	2,270	2,388
Future income tax assets - long term	1,881	1,723
Total assets	<u>\$ 223,531</u>	<u>\$ 235,218</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 25,639	\$ 32,939
Deferred revenue	19,519	22,510
Current portion of loans payable	6,392	6,587
	<u>51,550</u>	<u>62,036</u>
Long term		
Loans payable	8,468	13,401
Employee future benefits	1,889	1,872
	<u>10,357</u>	<u>15,273</u>
Total liabilities	<u>61,907</u>	<u>77,309</u>
Shareholders' equity		
Share capital (note 7(a))	346,068	345,885
Contributed surplus	3,429	2,804
Deficit	(184,124)	(188,759)
Non-controlling interest (note 5(b))	-	486
Accumulated other comprehensive loss	(3,749)	(2,507)
Total shareholders' equity	<u>161,624</u>	<u>157,909</u>
Total liabilities and shareholders' equity	<u>\$ 223,531</u>	<u>\$ 235,218</u>

COM DEV International Ltd.
Consolidated Statements of Cash Flows
(Canadian dollars in thousands)
Unaudited

For the three months ended July 31	2010	2009
Operating activities		
Net (loss) income	\$ (1,715)	\$ 5,236
Amortization	3,033	2,809
Loss (gain) on disposal of assets	20	(6)
Defined benefit plan expenses (note 11)	361	109
Defined benefit plan contributions	(195)	(141)
Stock compensation expense (note 7)	315	271
Employee stock ownership plan awards (note 7)	43	40
Unrealized foreign exchange loss (gain) on derivatives (note 9)	<u>1,098</u>	<u>(2,847)</u>
	2,960	5,471
Net change in non-cash working capital items	<u>2,571</u>	<u>(11,657)</u>
Operating activities	<u>5,531</u>	<u>(6,186)</u>
Financing activities		
Shares issued	-	(60)
Advance of long term debt (note 6)	549	-
Repayment of long term debt	<u>(1,749)</u>	<u>(1,710)</u>
Financing activities	<u>(1,200)</u>	<u>(1,770)</u>
Investing activities		
Acquisition of property, plant and equipment	(3,085)	(842)
Proceeds on disposal of property, plant, and equipment	-	53
Acquisition of intangible assets	<u>(2,506)</u>	<u>(3,470)</u>
Investing activities	<u>(5,591)</u>	<u>(4,259)</u>
Effect of exchange rate changes on cash	<u>(244)</u>	<u>121</u>
Net decrease in cash	(1,504)	(12,094)
Cash and cash equivalents, beginning of period	10,403	31,896
Cash and cash equivalents, end of period	<u>\$ 8,899</u>	<u>\$ 19,802</u>
Interest paid	<u>\$ 134</u>	<u>\$ 205</u>
Taxes paid	<u>\$ 15</u>	<u>\$ -</u>

COM DEV International Ltd.
Consolidated Statements of Cash Flows
(Canadian dollars in thousands)
Unaudited

For the nine months ended July 31	2010	2009
Operating activities		
Net income	\$ 4,614	\$ 14,423
Amortization	8,276	8,500
Loss (gain) on disposal of assets	73	(32)
Defined benefit plan expenses (note 11)	696	346
Defined benefit plan contributions	(585)	(450)
Stock compensation expense (note 7)	837	657
Employee stock ownership plan awards (note 7)	146	137
Unrealized foreign exchange gain on derivatives (note 9)	<u>(1,703)</u>	<u>(5,482)</u>
	12,354	18,099
Net change in non-cash working capital items	<u>(509)</u>	<u>(20,938)</u>
Operating activities	<u>11,845</u>	<u>(2,839)</u>
Financing activities		
Shares issued	-	21,813
Advance of long term debt (note 6)	549	-
Repayment of long term debt	<u>(4,980)</u>	<u>(5,325)</u>
Financing activities	<u>(4,431)</u>	<u>16,488</u>
Investing activities		
Acquisition of property, plant and equipment	(9,647)	(2,723)
Proceeds on disposal of property, plant and equipment	1	79
Acquisition of intangible assets	(7,787)	(6,577)
Business acquisitions (note 5)	<u>(2,127)</u>	<u>(140)</u>
Investing activities	<u>(19,560)</u>	<u>(9,361)</u>
Effect of exchange rate changes on cash	<u>(359)</u>	<u>(588)</u>
Net (decrease) increase in cash	(12,505)	3,700
Cash and cash equivalents, beginning of period	21,404	16,102
Cash and cash equivalents, end of period	<u>\$ 8,899</u>	<u>\$ 19,802</u>
Interest paid	<u>\$ 441</u>	<u>\$ 780</u>
Taxes paid	<u>\$ 173</u>	<u>\$ -</u>

COM DEV International Ltd.
Consolidated Statements of Changes in Equity
(Canadian dollars in thousands)
Unaudited

For the nine months ended July 31, 2010	Total	Deficit	Accumulated Other Comprehensive Loss	Share Capital	Non-controlling interest	Contributed Surplus
Balance, October 31, 2009	\$ 157,909	\$ (188,759)	\$ (2,507)	\$ 345,885	\$ 486	\$ 2,804
Comprehensive income						
Net Income	4,614	4,635	-	-	(21)	-
Foreign currency translation adjustments (net of taxes of \$nil)	(1,242)	-	(1,242)	-	-	-
	<u>3,372</u>	<u>4,635</u>	<u>(1,242)</u>	<u>-</u>	<u>(21)</u>	<u>-</u>
Common stock issued	-	-	-	183	-	(183)
Value of ESOP awards	146	-	-	-	-	146
Minority interest purchase adjustment (note 5(b))	(640)	-	-	-	(465)	(175)
Expense recognized for stock-based compensation	837	-	-	-	-	837
Balance, July 31, 2010	<u>\$ 161,624</u>	<u>\$ (184,124)</u>	<u>\$ (3,749)</u>	<u>\$ 346,068</u>	<u>\$ -</u>	<u>\$ 3,429</u>
<hr/>						
For the nine months ended July 31, 2009						
Balance, October 31, 2008	\$ 121,584	\$ (204,065)	\$ (729)	\$ 323,975	\$ 524	\$ 1,879
Comprehensive income						
Net Income	9,182	9,207	-	-	(25)	-
Foreign currency translation adjustments (net of taxes of \$nil)	(833)	-	(833)	-	-	-
	<u>8,349</u>	<u>9,207</u>	<u>(833)</u>	<u>-</u>	<u>(25)</u>	<u>-</u>
Common stock issued	21,873	-	-	22,032	-	(159)
Value of ESOP awards	97	-	-	-	-	97
Expense recognized for stock-based compensation	386	-	-	-	-	386
Balance, July 31, 2009	<u>\$ 152,288</u>	<u>\$ (194,858)</u>	<u>\$ (1,562)</u>	<u>\$ 346,007</u>	<u>\$ 499</u>	<u>\$ 2,203</u>

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

1. Summary of Significant Accounting Policies

These interim consolidated financial statements of COM DEV International Ltd. (the "Company"), have been prepared by management in accordance with Canadian generally accepted accounting principles on a basis consistent with prior periods except for the effects of adopting new accounting standards, as described in note 2, and certain disclosures required for annual financial statements that have not been included. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates include, but are not limited to, the value of contract work in progress and recognition of revenue related to the percentage of completion of contract work, the determination of doubtful accounts, impairment of long-lived assets, intangibles, and goodwill, useful lives of intangible assets and property, plant, and equipment, determination of net recoverable value of assets, contracts in progress, and future income tax assets, valuation of employee future benefits liabilities, and contingencies. Actual results could differ from these estimates. These interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended October 31, 2009. All financial amounts are expressed in thousands of Canadian dollars, except per share information or as otherwise indicated. These interim consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies.

The consolidated financial statements include the accounts of all of the Company's subsidiaries with inter-company transactions and balances eliminated. The Company's principal wholly-owned subsidiaries are COM DEV Ltd. ("CDL"), COM DEV Europe Limited ("CDE"), COM DEV USA LLC ("CDU"), COM DEV US Property LLC ("CD US Property"), COM DEV Consulting Ltd. ("CD Consulting"), exactEarth Ltd., and Xi'an COM DEV Microwave Electronics Co. Ltd. ("Xian").

2. Changes in Accounting Standards

Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

Effective November 1, 2009, the Company prospectively early adopted CICA Handbook Section 1582, Business Combinations and retrospectively early adopted Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date. Section 1602 establishes standards for the accounting and presentation of non-controlling interest. These new standards must be adopted concurrently with Section 1582. Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. As at November 1, 2009 there was no impact of adopting CICA Handbook Sections 1582 or 1601. However, by adopting Section 1602 there was a change in presentation

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

of non-controlling interest on the Consolidated Balance Sheet to report it as a component of shareholders' equity and a change to the Consolidated Statement of Operations to exclude non-controlling interest from net income and present it separately.

3. Future Accounting Changes:

International Financial Reporting Standards

The CICA Accounting Standards Board has announced that Canadian publically accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective for fiscal years beginning on or after January 1, 2011 and therefore will commence in the first quarter of the Company's 2012 fiscal year, with comparative figures.

The Company will follow a four key phase approach to ensure successful conversion to International Financial Reporting Standards.

The four phases are:

- 1) IFRS diagnostic impact assessment
- 2) Design and Planning
- 3) Solution development
- 4) Implementation

It is not practically possible at this time to quantify the impact of these differences. The Company expects to make changes to processes and systems before the 2011 fiscal year, in time to enable the Company to record transactions under IFRS for comparative purposes in the 2012 financial year reporting.

4. Inventory

Inventory is comprised of:

	<u>Jul. 31, 2010</u>	<u>Oct. 31, 2009</u>
Raw Materials	\$12,803	\$14,577
Contracts in process – costs and profits earned in excess of progress billings	46,558	36,537
Total Inventory	<u>\$59,361</u>	<u>\$51,114</u>

The amount of inventory recognized as an expense and included in cost of revenue accounted for other than by percentage-of-completion method during the three and nine months ended July 31, 2010 was \$1,412 and \$4,039 (\$810 and \$3,387 in 2009). The amount charged to net income and included in cost of revenue for the write-down of raw material inventory for valuation issues during the three and nine months ended July 31, 2010 was \$181 and \$767 (\$294 and \$825 in 2009). There was a reduction in the cost of revenue for a reversal of previous write-downs of raw material inventory for the three and nine months ended July 31, 2010 of \$217 and \$1,076 (nil in 2009).

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

5. Acquisitions

a) Routes AstroEngineering Ltd.

On April 15, 2010, the Company purchased substantially all of the assets of Routes AstroEngineering Ltd. for cash consideration. The bargain purchase transaction resulted in a gain due to unusual liquidity concerns of the seller.

The business combination has been accounted for using the purchase method and the Company has included the results of operations in its consolidated financial statements from the date of acquisition effective April 15, 2010.

The fair value of the assets acquired and the liabilities assumed as agreed upon by the parties is summarized in the following table:

Total purchase price	\$ 1,487
Allocated to:	
Equipment	\$ 23
Land and building	1,200
Current assets	672
Current liabilities	(112)
Net assets acquired	<u>\$ 1,783</u>
Gain from bargain purchase	<u>296</u>

The gain of \$296 resulting from the excess of fair value of net assets acquired over the purchase price is recognized in other income, and direct costs of the acquisition of \$170 are included in other expense on the Consolidated Statements of Operations.

Current assets include provisional amounts for Scientific Research and Experimental Development ("SRED") refundable tax credits. The amounts recognized have been determined provisionally and may change subject to review by the Canada Revenue Agency ("CRA").

The current liabilities consist of provisional amounts payable for consulting work completed on SRED refundable tax credits and consideration payable to the former owners, both contingent upon receipt of SRED refundable tax credits. These amounts have been determined provisionally and may change subject to amounts received for SRED refundable tax credits.

b) Xian

On April 28, 2010 the Company achieved 100% ownership of Xian by purchasing the non-controlling interest for cash consideration of \$640. In accordance with the adoption of CICA Handbook Section 1602, Non-controlling Interests, changes in a parent's ownership in a

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subsidiary that do not result in a loss of control are accounted for as equity transactions. In connection with the acquisition, \$175 was charged to contributed surplus as follows:

Total purchase price	\$ 640
Less: non-controlling interest at date of purchase	465
Excess to contributed surplus	<u>\$ 175</u>

6. Government Assistance

In the second quarter of fiscal 2010, the Company entered into an agreement to receive a conditional grant from The Ministry of Economic Development and Trade under the Next Generation of Jobs Fund up to a maximum of \$12,228 for eligible project costs during the period from May 2009 to May 2014. The grant is conditional upon maintaining a minimum number of employees and project investment. There are repayment provisions if these conditions are not met. In the three and nine months ended July 31, 2010, the Company has accrued amounts receivable of \$230 and \$1,083, of which \$199 and \$758 was credited against property, plant, and equipment, and \$31 and \$325 was applied against project costs included in the cost of revenue.

In the nine months ending July 31, 2010, the Company entered into a contribution agreement with The Federal Economic Agency for Southern Ontario. The contribution agreement is in the form of a non-interest bearing loan. The repayable contributions are based on the Company's Microsatellite Infrastructure Satellite project costs incurred between November 2009 and June 2010 in amounts not exceeding the lesser of: a) 50% of eligible capital costs and 75% of eligible non-capital project costs and b) \$5,218. The repayment term for the loan is a five year amortization period with 60 monthly payments of \$87 for a total of \$5,218 beginning November 2011. Due to the late receipt of funds, it is expected the repayment period will commence April 2012. During the period, the Company has received contributions of \$549.

7. Share Capital and Earnings Per Share

a) Issued Capital

The following details the issued and outstanding common shares for the nine months ended July 31, 2010.

	<u>Number</u>	<u>Amount</u>
Balance, October 31, 2009	76,100,289	\$345,885
Issuance of common shares (i)	-	-
Shares issued through employee plan (ii)	55,838	183
Balance, July 31, 2010	<u>76,156,127</u>	<u>\$346,068</u>

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- (i) During the three and nine months ended July 31, 2010, there were no stock options exercised. In the three months ended July 31, 2009, there were no stock options exercised. During the nine months ended July 31, 2009, the Company issued 215,100 common shares to satisfy the equivalent number of stock options exercised of which 62,000 of the options represent options issued after November 1, 2003.
- (ii) On February 28, 2010, the Company issued 55,838 (35,256 in 2009) common shares under the Employee Stock Ownership Plan (“ESOP”).

The maximum number of shares outstanding if all options were exercised, and ESOP shares were issued is 78,219,726.

b) Employee Stock Ownership Plan

The value of ESOP shares amortized to compensation expense but not yet issued in the three and nine months ended July 31, 2010, was \$43 and \$146 (\$40 and \$137 in 2009). These amounts are included in contributed surplus.

c) Stock Based Compensation

In the three and nine months ended July 31, 2010, the Company granted 421,096 and 434,644 options. In the three and nine months ended July 31, 2009 the Company granted 358,944 options.

Options granted vest over three years, and vested options can be exercised over a five-year period from the date of issue. The maximum number of shares authorized for grant under the option plan is 9.4% of the outstanding shares issued or 7,158,676.

The fair value of options issued was estimated at the date of grant, using the Black-Scholes Option Model with the following weighted average assumptions:

	<u>3 months ended</u> <u>July 31, 2010</u>	<u>9 months ended</u> <u>July 31, 2010</u>
Risk-free interest rate	2.21%	2.22%
Dividend yield	0.00%	0.00%
Volatility	48.0%	48.0%
Expected life of options	5 years	5 years
Weighted average fair value of options granted	\$0.83	\$0.86
Weighted average exercise price of options granted	<u>\$1.89</u>	<u>\$1.95</u>

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The estimated fair value of the options is amortized to expense over the vesting period of the options. In the three and nine months ended July 31, 2010, compensation expense of \$53 and \$161 (\$117 and \$432 in 2009) was recognized. These amounts were added to contributed surplus.

As at July 31, 2010, the options outstanding had exercise prices ranging from \$1.89 to \$5.14 with a weighted average exercise price of \$3.20 and a weighted average contractual life of 2.07 years.

The following details the options for the nine months ended July 31,

	2010		2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance as at October 31,	1,664,339	\$3.56	1,509,099	\$3.33
Granted	434,644	\$1.95	358,944	\$3.32
Exercised	-	-	(185,500)	\$1.39
Expired	(88,030)	\$3.77	(29,600)	\$2.40
Forfeited	(45,900)	\$3.32	-	-
Balance as at July 31	1,965,053	\$3.20	1,652,943	\$3.56
Vested	1,349,547		1,293,999	

d) Long Term Incentive Plans

The following details the RSUs and PSUs for the nine months ended July 31:

	2010		2009	
	RSUs	PSUs	RSUs	PSUs
Balance as at October 31,	635,106	151,589	-	-
Granted	370,156	416,187	625,907	146,422
Forfeited	(3,068)	(3,068)	-	-
Balance as at July 31	1,002,194	564,708	625,907	146,422
Weighted average fair value of units granted in the period	\$1.91	\$2.03	\$2.93	\$3.32

In the three and nine months ended July 31, 2010, compensation expense of \$262 and \$676 (\$154 and \$225 in 2009) was recognized. These amounts were added to contributed surplus.

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e) Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share for the three and nine months ended July 31,

	3 months ended July 31	
	2010	2009
Numerator for basic and diluted earnings per share – net (loss) income	(\$1,715)	\$5,241
Denominator for basic earnings per share-weighted average shares outstanding	76,157,127	76,100,289
Effect of dilutive securities		
ESOP	-	31,411
Employee stock options	-	53,820
Potential dilutive common shares	-	85,231
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	76,157,127	76,185,520
Basic and diluted (loss) earnings per share	(\$0.02)	\$0.07

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	9 months ended July 31	
	2010	2009
Numerator for basic and diluted earnings per share – net income	\$4,635	\$14,448
Denominator for basic earnings per share- weighted average shares outstanding	76,131,583	72,662,725
Effect of dilutive securities		
ESOP	46,151	38,137
Employee stock options	131,187	42,835
Potential dilutive common shares	177,338	80,972
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	76,308,921	72,743,697
Basic and diluted earnings per share	\$0.06	\$0.20

8. Income Tax Expense

Operating loss carry forward amounts have partially offset current income tax expenses in the nine months ended July 31, 2010. In addition, in the three and nine months ended July 31, 2010, \$800 of Investment Tax Credits have been recognized in “Research and development recovery” in the Consolidated Statement of Operations and are included as a component of the net future income tax asset. For the nine months ended July 31, 2010 the Company’s effective income tax rate differs from the combined federal and provincial income tax rate of 31.5% (33.08% for 2009) as a result of the utilization of unrecognized Scientific Research & Experimental Development tax pools and loss carry forwards in Canada, the U.S. and the U.K. The balance of the net future income tax asset increased \$158 from October 31, 2010.

9. Financial Instruments

The fair values of foreign currency call and put option contracts have been estimated using market quoted rates of foreign currencies. The Government of Canada loan, included in loans payable, has a fair value at July 31, 2010, of \$202 (\$267 in 2009) that approximates the carrying value of \$197. The Federal Economic Agency for Southern Ontario loan, included in loans payable, has a carrying value at July 31, 2010, of \$549 (nil in 2009) that approximates the fair value because it was received late in the third quarter. The fair values of the Government of Canada loan and the Federal Economic Agency for Southern Ontario loan are calculated using discounted cash flows with a discount rate comprised of the Bank of Canada prime rate plus 2% which is indicative of the Company’s borrowing rate. The fair value of the GE Capital loans, included in loans payable, approximates the carrying value due to their variable interest rate terms.

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The Company's derivatives, which are not designated in hedging relationships, are classified as held-for-trading and the changes in fair value are recognized in the Consolidated Statements of Operations. During the three months ended July 31, 2010, the fair value of derivatives classified as held-for-trading decreased by \$1,098 (increased by \$2,847 in 2009). During the nine months ended July 31, 2010, the fair value of derivatives classified as held-for-trading increased by \$1,703 (\$5,482 in 2009).

At July 31, 2010 approximately 25% of cash and cash equivalents, 47% of accounts receivables, and 35% of accounts payable and accrued liabilities are denominated in foreign currencies (43%, 55%, and 37% respectively as at October 31, 2009). These foreign currencies include the U.S. Dollar, British Pound, and Euro.

The Company is exposed to foreign exchange risk on the following cash, accounts receivable, accounts payable, and loans denominated in foreign currencies:

<u>Currency</u>	<u>Cash</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>
USD	\$ 1,915	\$ 12,400	\$ 6,591
GBP	£ 137	£ 384	£ 691
EUR	-	€ 2,179	€ 476

As at July 31, 2010, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$57,011 (\$30,995 in 2009) and the amount that could be paid under foreign currency put options was \$76,459 (\$53,148 in 2009). The average contractual exchange rate on the call options was 1.0736 and on the put options was 1.1041. The settlement dates of all the outstanding contracts are distributed over fifteen months. The exchange rate at July 31, 2010 was 1.0283 (1.0775 in 2009).

In the three and nine months ended July 31, 2010, the Company recorded a net realized gain of \$640 and \$2,476 (realized loss of \$115 and \$2,386 in 2009) and net unrealized loss of \$1,098 and a gain of \$1,703 (unrealized gain of \$2,847 and \$5,482 in 2009) on foreign currency options that have been included in "foreign exchange (gain) loss" in the Consolidated Statements of Operations. At July 31, 2010, the fair value of option contracts of \$2,327 (\$624 at October 31, 2009) is included in "Prepays and other" in the Consolidated Balance Sheets.

There are trade accounts receivable balances past due but no amounts are considered impaired and therefore the Company does not have an impairment allowance. Four customers comprise 62% of accounts receivable as at July 31, 2010 (61% as at October 31, 2009). During the three and nine months ended July 31, 2010, five customers comprise 79% and three customers comprise 58% (four customers comprise 65% and 59% in 2009) of revenue.

The Company has reviewed its outstanding trade receivables and contracts in progress unbilled in detail and has determined that the aging profiles are within historical expectations. The Company has historically had no impairment of its trade receivables and contracts in progress unbilled.

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10. Segmented Information

The Company operates principally in the satellite communication industry using complimentary and compatible products. The Company has one reportable business segment, the Space Division. The Space Division is a leading global designer and manufacturer of space hardware subsystems. With facilities in Canada, the United Kingdom, and the United States, the Space Division designs and manufactures advanced products and subsystems that are sold to the major satellite prime contractors for use in communications, space science, remote sensing and military markets.

Geographic Information

Revenue by customer is based on where the customer is located.

	3 months ended July 31		9 months ended July 31	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenue from external customers				
Canada	\$10,886	\$14,571	\$34,169	\$34,738
U.S.A.	32,064	32,474	92,065	100,188
United Kingdom	7,091	10,215	29,503	35,047
Other	2,292	4,191	13,698	12,093
	<u>\$52,333</u>	<u>\$61,451</u>	<u>\$169,435</u>	<u>\$182,066</u>

11. Employee Future Benefit Plans

The Company provides certain pension and other future employee benefits to eligible participants upon retirement.

CDE Pension Benefits

The Company's U.K. subsidiary has a defined contribution pension plan for its employees. The Company's contributions, which are based on the contributions by employees, were \$107 and \$332 for the three and nine months ended July 31, 2010, (\$111 and \$306 in 2009) and have been included in "General Expenses" in the Consolidated Statements of Operations.

CDU Pension Benefits

The Company's U.S. subsidiary has a defined benefit plan that has four different benefit structures that cover former L-3 Communications Electron Technologies' employees.

During the three and nine months ended July 31, 2010, the Company incurred benefit expenses of \$322 and \$579 related to the plan (\$72 and \$227 in 2009) and have been included in "General Expenses" in the Consolidated Statements of Operations.

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Non-Pension Benefits

The Company provides non-pension retirement benefits including medical and vision benefits for eligible retirees, their spouses and qualified dependents for its U.S. subsidiary on an accrual basis.

During the three and nine months ended July 31, 2010, the Company incurred non-pension benefits expenses of \$39 and \$117 related to the plan (\$37 and \$119 in 2009) and have been included in "General Expenses" in the Consolidated Statements of Operations.

12. Comparative Consolidated Financial Statements

The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period interim consolidated financial statements.